

Report on Review of
Consolidated Interim Condensed Financial Statements of
Joint Stock Company Russian Grids and its subsidiaries
for the six-month period ended 30 June 2014

August 2014

Contents

Report on review of consolidated interim condensed financial statements	3
Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income	5
Consolidated Interim Condensed Statement of Financial Position	6
Consolidated Interim Condensed Statement of Cash Flows	7
Consolidated Interim Condensed Statement of Changes in Equity.....	8
Notes to the Consolidated Interim Condensed Financial Statements	
1 Background	10
2 Basis of preparation	11
3 Significant accounting policies	11
4 Significant subsidiaries	12
5 Operating segments	12
6 Revenue	15
7 Operating expenses	16
8 Finance income and costs	16
9 Property, plant and equipment	17
10 Other investments and financial assets	18
11 Cash and cash equivalents	18
12 Equity	18
13 Profit/(loss) per share	19
14 Loans and borrowings.....	19
15 Financial risk management	20
16 Commitments.....	21
17 Contingencies.....	21
18 Related party transactions	22
19 Events after the reporting period.....	22

Report on review of consolidated interim condensed financial statements

To the Shareholders and Board of Directors
JSC Russian Grids

We have reviewed the accompanying consolidated interim condensed financial statements of JSC Russian Grids and its subsidiaries, which comprise the consolidated interim condensed statement of financial position as at 30 June 2014 and the related consolidated interim condensed statements of profit and loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes.

Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with the Federal law *On Auditing Activity*, Federal Rule (Standard) on Auditing No. 33 *Engagements to review financial statements* and International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Other matters

The consolidated financial statements of JSC Russian Grids and its subsidiaries for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards were audited by another auditor who issued an audit report with an unqualified opinion dated 22 April 2014.

The consolidated interim condensed financial statements of JSC Russian Grids and its subsidiaries for the six-month period ended 30 June 2013 prepared in accordance with IAS 34 *Interim Financial Reporting* were reviewed by another auditor who issued a review report with an unqualified conclusion dated 29 August 2013.



D.E. Lobachev
Partner, General Director
Ernst & Young LLC

28 August 2014

Details of the entity

Name: JSC Russian Grids
Record made in the State Register of Legal Entities on 1 July 2008, State Registration Number №1087760000019.
Amendments due to renaming are recorded in the State Register of Legal Entities on 4 April 2013, State Registration Number №7137746729542.
Address: Russia, 121353, Moscow, Belovezhskaya, 4.

Details of the practitioner


Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Group of companies "Russian Grids"
Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income
for the six months ended 30 June 2014 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
Revenue	6	379,526	349,371
Operating expenses	7	(331,698)	(318,671)
Other income		2,814	1,913
Results from operating activities		50,642	32,613
Finance income	8	5,194	5,285
Finance costs	8	(13,990)	(35,511)
Net finance costs		(8,796)	(30,226)
Share of profit of equity accounted investees (net of income tax)		1	12
Profit before income tax		41,847	2,399
Income tax expense		(10,307)	(4,486)
Profit/(loss) for the period		31,540	(2,087)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets		18	(109)
Foreign currency translation reserve		(76)	81
Income tax on items that may be reclassified subsequently to profit or loss		(4)	20
Total items that may be reclassified subsequently to profit or loss		(62)	(8)
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of the defined benefit liability		1,112	1,032
Income tax on items that will not be reclassified to profit or loss		(136)	(131)
Total items that will not be reclassified to profit or loss		976	901
Other comprehensive income for the period, net of income tax		914	893
Total comprehensive income/(loss) for the period		32,454	(1,194)
Profit/(loss) attributable to:			
Owners of the Company		22,724	(1,840)
Non-controlling interest		8,816	(247)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		23,327	(947)
Non-controlling interest		9,127	(247)
Profit/(loss) per share			
Basic and diluted profit/(loss) per ordinary share (in RUB)	13	0.14	(0.01)

These consolidated interim condensed financial statements were approved by management on 28 August 2014 and were signed on its behalf by:


 First Deputy Director General
 for Economic Affairs and Finance
 A.A. Demin


 Chief Accountant
 V.V. Shchukin

The consolidated interim condensed statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 22.

Group of companies “Russian Grids”
Consolidated Interim Condensed Statement of Financial Position as at 30 June 2014 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Notes	30 June 2014 Unaudited	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	9	1,625,968	1,595,862
Intangible assets		15,853	16,557
Investments in equity accounted investees		1,209	1,202
Non-current accounts receivable		9,822	7,442
Other investments and financial assets	10	25,931	27,309
Deferred tax assets		4,666	9,012
Total non-current assets		1,683,449	1,657,384
Current assets			
Inventories		27,521	23,920
Other investments and financial assets	10	41,600	53,306
Current tax assets		6,391	5,568
Trade and other receivables		139,253	143,944
Cash and cash equivalents	11	89,742	61,917
Total current assets		304,507	288,655
Total assets		1,987,956	1,946,039
EQUITY AND LIABILITIES			
Equity			
	12		
Share capital		163,154	163,154
Share premium		212,978	212,978
Treasury shares		(2,819)	(2,819)
Other reserves		(5,662)	(6,265)
Retained earnings		421,435	398,711
Total equity attributable to equity holders of the Company		789,086	765,759
Non-controlling interest		303,021	295,932
Total equity		1,092,107	1,061,691
Non-current liabilities			
Loans and borrowings	14	498,253	492,229
Trade and other payables		18,393	14,487
Employee benefits		27,700	28,971
Deferred tax liabilities		39,045	38,715
Total non-current liabilities		583,391	574,402
Current liabilities			
Loans and borrowings	14	59,370	57,808
Trade and other payables		240,651	241,266
Provisions		12,407	10,397
Current tax liabilities		30	475
Total current liabilities		312,458	309,946
Total liabilities		895,849	884,348
Total equity and liabilities		1,987,956	1,946,039

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 22. 6

Group of companies “Russian Grids”
Consolidated Interim Condensed Statement of Cash Flows for the six months ended 30 June 2014 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Note	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
OPERATING ACTIVITIES			
Profit/(loss) for the period		31,540	(2,087)
<i>Adjustments for:</i>			
Depreciation, amortization and impairment	7	61,139	56,752
Finance costs	8	13,990	35,511
Finance income	8	(5,194)	(5,285)
Profit/(loss) on disposal of property, plant and equipment		(113)	1,128
Share of profit of equity accounted investees (net of income tax)		(1)	(12)
Loss on disposal of subsidiaries		–	12
Other non-cash transactions		(28)	154
Income tax expense		10,307	4,486
Operating profit before working capital changes and reserves		111,640	90,659
Change in trade and other receivables		1,793	10,509
Change in financial assets related to employee benefit fund		332	71
Change in inventories		(3,612)	(5,210)
Change in trade and other payables		(17,979)	(553)
Change in employee benefit liabilities		(1,264)	(256)
Change in provisions		2,010	(3,793)
Cash flows from operations before income taxes and interest paid		92,920	91,427
Income taxes paid		(7,039)	(6,256)
Interest paid		(22,123)	(17,576)
Net cash flows from operating activities		63,758	67,595
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(63,090)	(86,003)
Proceeds from sale of property, plant and equipment		1,627	2,115
Acquisition of investments and placement of bank deposits		(19,393)	(32,874)
Proceeds from sale of investments and withdrawal of bank deposits		33,079	62,586
Interest received		4,651	3,349
Net cash flows used in investing activities		(43,126)	(50,827)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		50,671	86,076
Repayment of loans and borrowings		(43,038)	(69,997)
Purchase of non-controlling interest in subsidiaries		–	(764)
Proceeds from shares issued		–	500
Dividends paid		(9)	–
Payment of finance lease liabilities		(431)	(1,000)
Net cash flows from financing activities		7,193	14,815
Net increase in cash and cash equivalents		27,825	31,583
Cash and cash equivalents at the beginning of the period		61,917	59,815
Cash and cash equivalents at the end of the period		89,742	91,398

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 22.

Group of companies “Russian Grids”
Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2014 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Reserve for issue of shares	Reserves	Retained earnings			
Balance at 1 January 2013	49,947	16,244	(2,819)	19,751	(5,333)	808,864	886,654	335,765	1,222,419
Loss for the period	–	–	–	–	–	(1,840)	(1,840)	(247)	(2,087)
Other comprehensive income	–	–	–	–	1,004	–	1,004	–	1,004
Income tax on other comprehensive income	–	–	–	–	(111)	–	(111)	–	(111)
Total comprehensive loss for the period	–	–	–	–	893	(1,840)	(947)	(247)	(1,194)
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Issue of shares	9,375	10,876	–	266,446	–	(286,197)	500	–	500
Dividends	–	–	–	–	–	(141)	(141)	(3,364)	(3,505)
Effect of employee share options	–	–	–	–	–	175	175	–	175
Total contributions by and distributions to owners	9,375	10,876	–	266,446	–	(286,163)	534	(3,364)	(2,830)
Changes in ownership interests in subsidiaries									
Purchase of shares issued by subsidiaries	–	–	–	–	–	1,079	1,079	(1,079)	–
Purchase of non-controlling interest in subsidiaries without a change in control	–	–	–	–	–	(269)	(269)	(495)	(764)
Total transactions with owners, recorded directly in equity	9,375	10,876	–	266,446	–	(285,353)	1,344	(4,938)	(3,594)
Balance at 30 June 2013 (unaudited)	59,322	27,120	(2,819)	286,197	(4,440)	521,671	887,051	330,580	1,217,631

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 22.

Group of companies “Russian Grids”
Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2014 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Reserve for issue of shares	Reserves	Retained earnings			
Balance at 1 January 2014	163,154	212,978	(2,819)		(6,265)	398,711	765,759	295,932	1,061,691
Profit for the period	–	–	–	–	–	22,724	22,724	8,816	31,540
Other comprehensive income	–	–	–	–	691	–	691	363	1,054
Income tax on other comprehensive income	–	–	–	–	(88)	–	(88)	(52)	(140)
Total comprehensive income for the period	–	–	–	–	603	22,724	23,327	9,127	32,454
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Dividends (unaudited)	–	–	–	–	–	–	–	(2,038)	(2,038)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	(2,038)	(2,038)
Total transactions with owners, recorded directly in equity	–	–	–	–	–	–	–	(2,038)	(2,038)
Balance at 30 June 2014 (unaudited)	163,154	212,978	(2,819)	–	(5,662)	421,435	789,086	303,021	1,092,107

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 22.

1. Background

(a) The Group and its operations

Joint Stock Company “Interregional Distribution Grid Companies Holding” (hereinafter referred to as “JSC IDGC Holding”) was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as “RAO UES”) dated 26 October 2007 by the means of spin-off from RAO UES.

On 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding the decision was made to amend the Charter of JSC “IDGC Holding”, under which it was renamed JSC “Russian Grids” (hereinafter referred to as “the Company”). On 4 April 2013 the respective changes to the Charter of JSC “IDGC Holding” were registered by the Inter-Regional inspectorate of Federal Tax Service №46 of Moscow.

The ordinary and preference shares of the Company are traded on the MICEX-RTS Stock Exchange. Also GDRs of the Company are listed on the London Stock Exchange.

The Company’s registered office is located at 4 Belovezhskaya st., Moscow, Russia, 121353 (until 25 July 2014 the Company’s registered office is located at 26 Ulanskiy pereulok, Moscow, Russia, 107996).

The group of companies “Russian Grids” (hereinafter referred to as “the Group”) comprises JSC “Russian Grids” and its subsidiaries presented in Note 4.

The Group’s principal activities are electricity distribution and technological connection services. Power distribution companies of the Group sell electricity. Additionally certain interregional distribution grid companies of the Group performed function of default electricity supplier.

(b) Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(c) Relations with state and current regulations

The Group’s strategic business units (see Note 5) are regional natural monopolies. The Russian Government directly affects the Group’s operations through the system of regional tariffs.

In accordance with legislation the tariffs charged by the Group are controlled by the Federal Service on Tariffs and the Regional Energy Commission in each region.

1. Background (continued)

(c) Relations with state and current regulations (continued)

As at 30 June 2013 the Russian Government owned 86.32% of the voting ordinary shares and 7.01% of the voting preference shares of the Company (31 December 2013: 86.32% of the voting ordinary shares and 7.01% of the voting preference shares). The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Russian Government supports the Group due to its strategic position for economy of the Russian Federation. The Group's customer base includes a number of state-controlled entities.

2. Basis of preparation

(a) Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013. These consolidated interim condensed financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Use of judgments, estimates and assumptions

Preparing the interim financial statements requires management to make judgements, estimates assumptions that affect the application of accounted policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this consolidated interim condensed financial statements significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2013.

3. Significant accounting policies

The accounting policies adopted in the preparation of the consolidated interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013.

There are a number of new IFRS standards and interpretations, applicable for annual periods beginning on 1 January 2014. However, the Group has considered that these standards and interpretations have no significant impact on its consolidated interim condensed financial statements.

Certain comparative balances have been reclassified to conform with the current period presentation.

4. Significant subsidiaries

	Country of incorporation	30 June 2014 Unaudited Ownership/voting, %	31 December 2013 Ownership/voting, %
JSC “FGC UES”	Russian Federation	80.13	80.60**
JSC “MOESK”	Russian Federation	50.9	50.9
JSC “Tyumenenergo”	Russian Federation	100	100
JSC “Lenenergo”	Russian Federation	53.71 / 60.56**	53.71 / 60.56**
JSC “IDGC of Centre”	Russian Federation	50.23	50.23
JSC “IDGC of Urals”	Russian Federation	51.52	51.52
JSC “IDGC of Centre and Volga region”	Russian Federation	50.4	50.4
JSC “Kubanenergo”	Russian Federation	92.24	92.24
JSC “IDGC of Siberia”	Russian Federation	55.59	55.59
JSC “IDGC of Volga”	Russian Federation	67.63	67.63
JSC “IDGC of North-West”	Russian Federation	55.38	55.38
JSC “IDGC of North Caucasus”	Russian Federation	93.20	93.20
JSC “Chechenenergo”	Russian Federation	51**	51**
JSC “IDGC of South”	Russian Federation	51.66	51.66
JSC “TDC”	Russian Federation	85.77	85.77
JSC “Yantarenergo”	Russian Federation	100	100
JSC “Karachaevo-Cherkesskenergo”	Russian Federation	100	100
JSC “Kalmenergosbyt”	Russian Federation	100	100
JSC “Kabbalkenergo”	Russian Federation	65.27	65.27
JSC “Tyvaenergosbyt”	Russian Federation	100	100
JSC “Ingushenergo”	Russian Federation	49*	49*
JSC “Sevkavkazenergo”	Russian Federation	55.94	55.94
JSC “Dagestan Power Sales Company”	Russian Federation	51	51

* The Group exercises control over these entities stemming from the majority representation on the Board of Directors.

** Ownership is indicated excluding the effect of the shares issue incomplete as at period end.

5. Operating segments

The Group has fourteen reportable segments, as described below, which are the Group’s strategic business units. Each strategic business unit offers electricity distribution services including technological connection services in separate geographical regions of the Russian Federation and is managed separately. The “other” segment includes insignificant operating segments such as electricity transmission, electricity sales, rent services and repair and maintenance services. For each of the strategic business units, the Management Board reviews internal management reports on at least a quarterly basis. Unallocated items comprise assets and balances of the Group’s headquarter which exercises management activity on remuneration basis.

Performance is measured based on earnings before interest expense, income tax and depreciation and amortisation (EBITDA), as included in the internal management reports that are reviewed by the Group’s management responsible for operating decisions. EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these consolidated interim condensed financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segment is included below.

5. Operating segments (continued)

(i) Information about reportable segments (unaudited)

For the six months ended 30 June 2014:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kuban- energo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West Lenenergo	Yantar- energo	IDGC Centre	MOESK	FGC UES	Other	Total	
Revenue from external customers	34,763	25,779	27,414	22,826	13,975	13,742	4,242	36,014	21,103	20,027	357	47,595	59,061	22,128	28,936	377,962
Inter-segment revenue	31	7	2,908	13	189	3	1,838	40	1,457	79	1,711	5	68	61,596	14,328	84,273
Total segment revenue	34,794	25,786	30,322	22,839	14,164	13,745	6,080	36,054	22,560	20,106	2,068	47,600	59,129	83,724	43,264	462,235
Including																
Electricity transmission	28,482	25,509	29,323	22,633	13,769	13,528	5,660	32,501	15,863	18,436	1,937	31,543	55,831	79,530	5,276	379,821
Connection services	514	130	798	81	324	181	57	373	134	1,560	63	744	3,017	3,417	394	11,787
Electricity sales	5,668	–	–	–	–	–	–	3,031	6,299	–	–	14,893	–	–	29,083	58,974
Other revenue	130	147	201	125	71	36	363	149	264	110	68	420	281	777	8,511	11,653
EBITDA	5,331	6,313	3,665	3,345	2,529	438	(236)	5,410	3,433	3,274	322	8,531	17,087	50,923	(3,591)	106,774

For the six months ended 30 June 2013:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kuban- energo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West Lenenergo	Yantar- energo	IDGC Centre	MOESK	FGC UES	Other	Total	
Revenue from external customers	33,200	24,943	23,926	22,856	12,169	14,278	4,039	36,834	17,522	15,479	140	41,762	59,077	15,846	27,950	350,021
Inter-segment revenue	3	2	2,564	1	184	1	1,394	9	1,422	38	1,769	3	6	58,970	11,914	78,280
Total segment revenue	33,203	24,945	26,490	22,857	12,353	14,279	5,433	36,843	18,944	15,517	1,909	41,765	59,083	74,816	39,864	428,301
Including																
Electricity transmission	28,272	24,111	26,058	19,078	12,117	14,141	5,151	30,453	14,783	14,159	1,729	31,281	54,223	73,977	4,205	353,738
Connection services	516	668	301	92	185	110	212	298	77	1,282	88	272	4,690	287	457	9,535
Electricity sales	4,355	–	–	3,589	–	–	–	5,974	3,952	–	–	9,846	–	–	24,343	52,059
Other revenue	60	166	131	98	51	28	70	118	132	76	92	366	170	552	10,859	12,969
EBITDA	1,237	3,516	2,921	2,726	2,743	(63)	1,544	5,911	2,025	4,236	328	6,828	19,027	34,544	(865)	86,658

5. Operating segments (continued)

(i) Information about reportable segments (unaudited) (continued)

As at 30 June 2014:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kuban- energo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Yantar- energo	IDGC Centre	MOESK	FGC UES	Other	Total
Segment assets	66,426	136,308	57,793	64,524	45,910	60,701	32,933	93,596	59,062	161,085	7,393	108,235	306,000	1,208,637	101,833	2,510,436
<i>Including property, plant and equipment</i>	48,283	123,920	46,072	56,176	30,751	44,889	25,546	71,652	39,359	127,233	4,967	84,665	264,047	1,041,175	43,076	2,051,811

As at 31 December 2013:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kuban- energo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Yantar- energo	IDGC Centre	MOESK	FGC UES	Other	Total
Segment assets	60,202	133,390	56,622	65,319	46,659	64,537	32,696	89,280	55,201	148,483	7,420	104,988	299,675	1,214,291	106,827	2,485,590
<i>Including property, plant and equipment</i>	47,415	125,503	45,439	56,900	31,618	42,611	25,895	71,609	39,648	124,823	4,846	85,253	250,818	1,039,897	50,712	2,042,987

5. Operating segments (continued)

(ii) Reconciliations of reportable segment EBITDA

Reconciliation of reportable segment EBITDA is presented below:

	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
EBITDA of reportable segments	106,774	86,658
Bad debt allowance adjustment	5,665	(4,535)
Other provisions	1,629	115
Adjustment for promissory notes impairment	1,030	8,126
Adjustments for financial lease	568	1,701
Adjustment for disposal of property, plant and equipment	392	(585)
Retirement benefit obligations recognition	159	(585)
Adjustments for deferred expenses	5	318
Assets related to employee benefit fund	(27)	149
Adjustment for inventories valuation	(73)	(30)
Discounting of financial instruments	(74)	485
Accrued salaries and wages	(738)	(465)
Impairment of available-for-sale investments	(929)	(22,977)
Other adjustments	(421)	535
Unallocated	(220)	(1,917)
	113,740	66,993
Depreciation, amortization and impairment	(61,139)	(56,752)
Interest expenses on financial liabilities measured at amortised cost	(10,645)	(7,632)
Financial leasing	(109)	(210)
Income tax expense	(10,307)	(4,486)
Profit/(loss) for the period per consolidated interim condensed statement of profit and loss and other comprehensive income	31,540	(2,087)

6. Revenue

	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
Electricity transmission	307,551	283,246
Electricity sales	55,436	51,539
Technological connection services	12,343	10,382
Other revenues	4,196	4,204
	379,526	349,371

Other revenues are comprised of rental income, repair and maintenance services, communication services, transportation services, etc.

7. Operating expenses

	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
Personnel costs	79,154	72,583
Electricity transmission	63,226	54,662
Depreciation and amortization and impairment	61,139	56,752
Purchased electricity for compensation of technological losses	43,919	43,315
Purchased electricity for resale	30,930	28,767
Raw materials and supplies	9,873	9,759
Taxes other than income tax	7,082	4,850
Allowance for impairment of receivables, net	6,355	21,586
Repairs and maintenance services	5,714	5,651
Provisions accrual/(recovery), net	4,295	(2,588)
Rent	3,289	3,487
Security services	2,413	2,477
Electricity and heat power for own needs	1,928	1,817
Consulting, legal and audit services	1,776	2,504
Telecommunication and information services	1,524	1,249
Insurance	1,194	1,142
Transportation	1,178	1,144
Other expenses, net	6,709	9,514
	331,698	318,671

Other expenses are comprised mainly of bank charges, travel allowance, labour safety expense and training expense.

8. Finance income and costs

	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
Recognised in profit or loss		
<i>Finance income</i>		
Interest income on loans, bank deposits and promissory notes	4,468	3,867
Gain on disposal of financial assets	159	304
Other finance income	567	1,114
	5,194	5,285
<i>Finance costs</i>		
Interest expenses on financial liabilities measured at amortised cost	(10,645)	(7,632)
Interest expense on defined post-employment benefits	(1,073)	(841)
Impairment loss of available-for-sale financial assets	(929)	(22,977)
Promissory notes impairment	(874)	(3,477)
Interest expense on financial leasing	(109)	(210)
Other finance costs	(360)	(374)
	(13,990)	(35,511)

As a result of a further decline in the fair value of equity investments in OJSC “Inter RAO” below their cost the Group recognized an impairment loss of RUB 929 million (six months ended 30 June 2013: RUB 22,977 million) in impairment loss on available-for-sale financial assets within statement of profit and loss and other comprehensive income.

9. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Balance at 1 January 2013	168,412	741,711	598,269	179,245	463,328	2,150,965
Acquisitions through business combinations	(448)	460	(1)	(11)	–	–
Additions	2,093	1,686	842	3,203	91,657	99,481
Transfer between groups	2,893	16,521	11,281	4,021	(34,716)	–
Disposals	(351)	(443)	(2,408)	(502)	(1,503)	(5,207)
Balance at 30 June 2013 (unaudited)	172,599	759,935	607,983	185,956	518,766	2,245,239
Depreciation and impairment						
Balance at 1 January 2013	(30,256)	(224,797)	(166,940)	(80,298)	(8,937)	(511,228)
Acquisitions through business combinations	(4)	(3)	1	6	–	–
Depreciation charge	(3,929)	(20,548)	(20,116)	(10,526)	–	(55,119)
Impairment	–	–	–	–	(670)	(670)
Disposals	85	178	1,152	482	–	1,897
Balance at 30 June 2013 (unaudited)	(34,104)	(245,170)	(185,903)	(90,336)	(9,607)	(565,120)
Net book value						
At 1 January 2013	138,156	516,914	431,329	98,947	454,391	1,639,737
At 30 June 2013 (unaudited)	138,495	514,765	422,080	95,620	509,159	1,680,119
	Land and buildings	Transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Balance at 1 January 2014	194,650	880,859	714,926	217,584	448,229	2,456,248
Acquisitions through business combinations	(36)	–	(4)	40	–	–
Additions	819	1,266	483	2,383	85,895	90,846
Transfer between groups	2,829	23,261	12,204	4,525	(42,819)	–
Disposals	(137)	(262)	(654)	(810)	(122)	(1,985)
Balance at 30 June 2014 (unaudited)	198,125	905,124	726,955	223,722	491,183	2,545,109
Depreciation and impairment						
Balance at 1 January 2014	(39,991)	(341,171)	(283,301)	(107,747)	(88,176)	(860,386)
Acquisitions through business combinations	(2)	(486)	(54)	(29)	571	–
Depreciation charge	(4,167)	(22,591)	(20,175)	(12,137)	–	(59,070)
Impairment	–	–	–	(3)	(1,029)	(1,032)
Disposals	18	125	558	646	–	1,347
Balance at 30 June 2014 (unaudited)	(44,142)	(364,123)	(302,972)	(119,270)	(88,634)	(919,141)
Net book value						
At 1 January 2014	154,659	539,688	431,625	109,837	360,053	1,595,862
At 30 June 2014 (unaudited)	153,983	541,001	423,983	104,452	402,549	1,625,968

Capitalised borrowing cost for the 6 months ended 30 June 2014 amounted to RUB 11,754 million (for 6 months ended 30 June 2013: RUB 10,147 million).

10. Other investments and financial assets

	30 June 2014 (unaudited)	31 December 2013
Non-current		
Available-for-sale financial assets related to defined benefit plans	6,690	6,716
Promissory notes	–	874
Available-for-sale financial assets	19,241	19,719
	25,931	27,309
Current		
Bank deposit	38,366	51,682
Promissory notes	2,568	1,551
Other current assets	666	73
	41,600	53,306

Available-for-sale financial assets are mainly represented by marketable securities stated at fair value, most of them are represented by equity investments in OJSC “Inter RAO”.

11. Cash and cash equivalents

	30 June 2014 (unaudited)	31 December 2013
Cash at bank and in hand	67,618	51,918
Cash equivalents	22,124	9,999
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	89,742	61,917

Cash equivalents represent primarily bank deposits with original maturity less than 3 months placed with a number of banks which were designated as highly rated banks.

12. Equity

(a) Share capital

Number of shares unless otherwise stated

	Ordinary shares		Preference shares	
	30 June 2014 Unaudited	31 December 2013	30 June 2014 Unaudited	31 December 2013
Shares issued	161,078,853,310	161,078,853,310	2,075,149,384	2,075,149,384
Par value	RUB 1	RUB 1	RUB 1	RUB 1

(b) Dividends

In accordance with Russian legislation the Company’s distributable profit is limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles.

The annual shareholders meeting held on 30 June 2014 decided not to pay dividends on ordinary and preference shares for 2013.

Preference shares carry the right to vote on all matters within the competence of General shareholders’ meetings following the Annual shareholders’ meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at General shareholders’ meetings ceases from the date of the first full payment of dividends on such shares. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of the Company’s Charter amendments that limit their rights, including reorganisation and liquidation.

13. Profit/(loss) per share (unaudited)

The calculation of basic earnings per share for the six months ended 30 June 2014 was based on the profit attributable to ordinary shareholders of RUB 22,724 million (six months ended 30 June 2013: loss of RUB 1,840 million), and a weighted average number of ordinary shares outstanding of 159,563 million (six months ended 30 June 2013: 158,230 million), as shown below*.

<i>In millions of shares</i>	2014	2013
Issued shares at 1 January	161,079	47,872
Effect of own shares held	(1,516)	(1,516)
Effect of shares issued for FGC acquisition	–	102,578
Effect of shares issued	–	9,296
Weighted average number of shares for the six months ended 30 June	159,563	158,230
	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
Total profit/(loss) attributable to holders of ordinary shares	22,724	(1,840)
Weighted average number of ordinary shares for the six months ended 30 June (in millions of shares)	159,563	158,230
Profit/loss per ordinary share (in RUB) – basic and diluted	0.14	(0.01)

* The effect of shares issued for FGC acquisition was recognised retrospectively.

14. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortised cost.

	30 June 2014 Unaudited	31 December 2013
Non-current liabilities		
Unsecured loans	217,714	201,588
Unsecured bonds issued	279,908	289,893
Financial lease liabilities	631	748
	498,253	492,229
Current liabilities		
Current portion of unsecured long-term loans and bonds	52,850	53,148
Unsecured loans	5,776	3,592
Promissory notes	367	375
Loans from other related parties, including current portion of long-term loans	50	50
Current portion of long-term financial lease liabilities	327	643
	59,370	57,808

14. Loans and borrowings (continued)

The Group raised the following bank loans and issued the following bonds during the six months ended 30 June 2014:

	<u>Currency</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Maturity</u>
Unsecured bank loans*	RUB	31,853	8.35-10.7%	2014-2019
Unsecured bank loans	RUB	11,930	7.95-11.5%	2020-2027
Unsecured bank loans	RUB	2,508	8.65-9.75%	2014-2016
Unsecured bank loans	RUB	1,650	9.41%	2017
Unsecured bank loans*	RUB	740	8%	2014-2015
Unsecured bank loans	RUB	650	11-12%	2014
Unsecured bank loans	RUB	619	9.15-11.2%	2014-2015
Unsecured bank loans*	RUB	588	8.1%	2016
Unsecured bank loans	RUB	133	10-14%	2014-2018
		<u>50,671</u>		

* Loans from government-related entities

The Group repaid the following significant bank facilities and bonds during the six months ended 30 June 2014:

	<u>Amount</u>
Bonds	14,902
Loans from government-related entities	14,961
Other loans	13,175
	<u>43,038</u>

15. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2013.

The fair values of financial assets and liabilities approximate the carrying amounts as at 30 June 2014 except for the following:

	<u>Carrying value</u>	<u>Fair value</u>
Financial liabilities		
Loans and borrowings	557,623	532,376

Fair value of loans and borrowings as of 30 June 2014 presented in the table above is determined by discounting of future cash flows using weighted average interest rate of 10.97% (assumptions of Level 2 in the fair value hierarchy).

Financial assets

As of 30 June 2014 the Group holds investments in equity shares of RUB 18,798 million classified as available for sale which are listed on Moscow Exchange, measured at fair value and belong to Level 1 in the fair value hierarchy. Valuation of available-for-sale investments is made on a recurring basis using quoted market prices. Effect from the revaluation to market quotations is reflected within the Impairment loss on available-for-sale financial assets line of Finance costs of the statement of profit and loss and other comprehensive income (Note 8).

16. Commitments

As at 30 June 2014 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 273,519 million (as at 31 December 2013: RUB 293,833 million).

17. Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents with the Group property or relating to the Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may result in tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Environmental matters

The Group and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement position of Government authorities is continually being reconsidered. The Group's management periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

18. Related party transactions

(a) Control relationships

The Russian Government holds the majority of the voting rights of the Company and it is the ultimate controlling party of the Group.

(b) Transactions with government-related entities

In the course of its operating activities the Group engages in significant transactions with government-related entities. Revenues and purchases from government-related entities are measured at regulated tariffs as applicable.

Revenues from government-related entities for the six months ended 30 June 2014 constitute 33% (six months ended 30 June 2013: 29%) of total revenues, including 37% (six months ended 30 June 2013: 33%) of electricity transmission revenues.

Electricity transmission costs (including purchased electricity for compensation of technological losses) for government-related entities for the six months ended 30 June 2014 constitute 29% (six months ended 30 June 2013: 27%) of total transmission costs.

Significant loans from government-related entities raised and repaid during the period are disclosed in Note 14.

(c) Pricing policies

Related party revenue for electricity transmission is based on the tariffs determined by the government.

(d) Management remuneration

The Group identifies members of Boards of Directors, members of Management Boards and top managers of the Company and its subsidiaries as key management personnel.

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

Key management received the following remuneration during the period, which is included in personnel costs:

	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
Salaries and bonuses	130	190

19. Events after the reporting period

There were no significant events during the period from the reporting date till the date of approval of these consolidated interim condensed financial statements.